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COMMUNIST CHINA: Peking's low-key New Year's Day pronouncement touted China's diplomatic and economic progress but was uninformative on any political reorganization in the wake of the purge of Defense Minister Lin Piao and other top military leaders.

The joint People's Daily - Red Flag - Liberation Army Journal editorial on 31 December avoided a public airing of the recent leadership upheaval and forecast no sweeping purge in the ranks of the army or party. The editorial's heavy emphasis on promoting unity and educating those who have committed mistakes seems designed to project an image of leadership stability and to affirm that no major alteration in the regional and provincial power structure is in the offing. Indeed, the remarkable absence of repercussions at the local level in the months since Lin's fall suggests that specific reassurances regarding their political tenure already have been offered the majority of civilian and military power-holders in the provinces.

On the other hand, the editorial's failure to hail the complete reconstruction of party committees at the provincial level over the past year and its warning that much work remains to be done seem to indicate that local party organs will at least be selectively revamped. This impression has been reinforced in recent weeks

Eventual alterations in the local power structure almost certainly will dilute the influence of some military power-holders and remaining civilian ultraleftists; some indication of this already has been provided in the increasing number of radio

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broadcasts decrying attempts from the "left" to undermine party control of the military. The political status of the military establishment as a whole, however, is still in question, and the sensitivity of this issue was underscored by the New Year editorial's stress on the importance of conventional military activities as opposed to the army's political chores.

The trumpeting of China's success in the international and domestic economic arenas highlights the absence of a discernible impact on the nation's decision-making process by the recent high-level purges. The situation in the leadership hierarchy is still fluid, however, and the editorial provided no clues as to the eventual political settlement to be hammered out in Peking. Approximately nine civilian and military politburo members are appearing regularly in public but the current hierarchy clearly constitutes a rump body and the process of filling existing vacancies on the 25-member politburo almost certainly has generated considerable behind-the-scenes maneuvering.

The editorial's praise of China's diplomatic successes appears to offer indirect testimony to Chou En-lai's influence. Reflecting predictable Chinese pleasure over Peking's enhanced international position during the past year, the editorial devoted considerable attention to such conventional diplomatic achievements as Peking's entry into the UN and its new diplomatic ties abroad. The US was treated in markedly low-keyed fashion. By contrast the Soviet leadership came in for some polemical hard knocks, including a personal criticism of party chief Brezhnev. Contrary to last year when Japan was treated as a major Chinese adversary, this year's pronouncement omitted almost all anti-Tokyo commentary. The Taiwan issue was treated in unusual detail, reflecting Peking's immediate and serious concern over the island's future status.

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PAKISTAN: President Bhutto is moving ahead rapidly with changes in economic policy.

Islamabad has announced that it has taken over management of 20 firms in such industries as gas, iron and steel, engineering goods, chemicals, rayon, cars and tractors. The government stressed, however, that it had not acquired any financial interest in the firms; thus, the action so far falls short of complete nationalization. Although the take-over encompassed an important part of industry, the cotton textile sector--the nation's leading industrial employer and foreign exchange earner--remains untouched.

President Bhutto, aware that his actions endanger prospects for new foreign investment and aid for Pakistan, has attempted to assure the foreign community of his moderation. He emphasized that foreign investment contracts and credits would not be affected by the new arrangements and that government controls would not be extended to other manufacturing industries.

The government contemplates further economic changes. Land and tax reform, and government control of banking and insurance are under serious consideration. In a move to conserve the country's financial resources and to strengthen government control, the heads of two rich industrial families were put under house arrest for six months and passports of members of the country's so-called 22 richest families remain impounded. Those families which supported Bhutto's political opponents seem most affected by government actions thus far.

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BANGLADESH: Dacca is restructuring its economy as it attempts to restore some semblance of order, but a return to pre-war economic conditions will require substantial inflows of foreign aid.

The government has taken control of 274 firms, in addition to the jute and tea industries that were taken over last week. Ceilings have been set for private salaries. A food corporation has been formed to procure and distribute rice, and efforts are being made to get fertilizer and machinery into those areas where the rice crop currently is being planted. Some money and food have been allocated for the returning refugees. Trade pacts with the USSR, Bulgaria, and Czechoslovakia reportedly will soon be signed.

The Bangladesh rupee has been set at less than 14 cents compared with 21 cents previously maintained for Pakistan's currency. This devaluation, however, will not necessarily mean a rapid improvement in the new country's foreign trade. Under the previous exchange rate structure, exporters received a favorable rate of exchange--up to 35 percent higher for their sales. Moreover, most sectors of the economy, including shipping and industry, must first be set in order. Furthermore, Dacca's major exports, raw jute and jute manufactures, are suffering from a declining world demand as consumers switch to synthetic fibers. The new regime also must renegotiate jute sales contracts which it had canceled.

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COMMUNIST CHINA: Peking achieved impressive industrial growth in 1971 without sacrificing living standards. Output of basic metals, fuel, power, industrial equipment, and military end products reached record levels.

Recently announced Chinese claims for economic output in 1971--the most complete set of economic statistics released since 1959--appear inflated. Industrial production nonetheless probably grew by some ten percent over the 1970 level. This was slower than the estimated 17-percent growth achieved in 1970, but growth that year was atypical because the Chinese easily put back into use much plant capacity previously idle. In 1971, the Chinese relied more on new facilities.

Agricultural performance probably disappointed the regime. Weather conditions during most of 1971 largely nullified the benefits derived from increased supplies of farm equipment and chemical fertilizers. Total grain output may not have exceeded the 1970 level of 215-220 million tons. China has food reserves, however, and also can afford to buy more grain than the three million tons already purchased for 1972 delivery.

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PARAGUAY: The court decision not to extradite to the US an accused narcotics smuggler poses questions about Paraguay's willingness to cooperate in stopping the drug traffic.

The US Embassy was informed on 31 December that a Paraguayan court had refused to extradite August Ricord, an important figure in the international drug smuggling network. The court based its opinion on the fact that drug trafficking is not an extraditable offense under the present US-Paraguayan treaty. The government intends to appeal the case and meanwhile will request a cash bail of almost \$250,000. Even so, Ricord probably will post bond and it is possible that he will leave the country.

Paraguayan officials had assured the US that the court, which can easily be influenced by President Stroessner, would approve extradition even if the treaty did not appear to apply. The court's decision, however, would seem to indicate that Stroessner remains reluctant to confront the strong Paraguayan interests involved in drug traffic.



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NOTES

PAKISTAN-BANGLADESH: By freeing Mujibur Rahman unconditionally, President Bhutto apparently intended both to satisfy international opinion and to improve prospects for the repatriation of the Pakistani troops and civilians held by the Indians. Bhutto presumably was given little reason from his talks with Mujib to believe he could extract meaningful concessions from the Bengali leader and may have concluded that his unconditional release was the only way to limit Indian influence in the former province.

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OMAN: Sultan Qabus announced the resignation of Prime Minister Tariq and an extensive reshuffling of government positions on 1 January. The Sultan and the prime minister had been engaged in a quiet power struggle since mid-1970 when they took office following a coup which ousted the Sultan's father. Asim al-Jamali, minister of health, has been named acting prime minister. The Sultan apparently intends to keep power centralized in the palace.

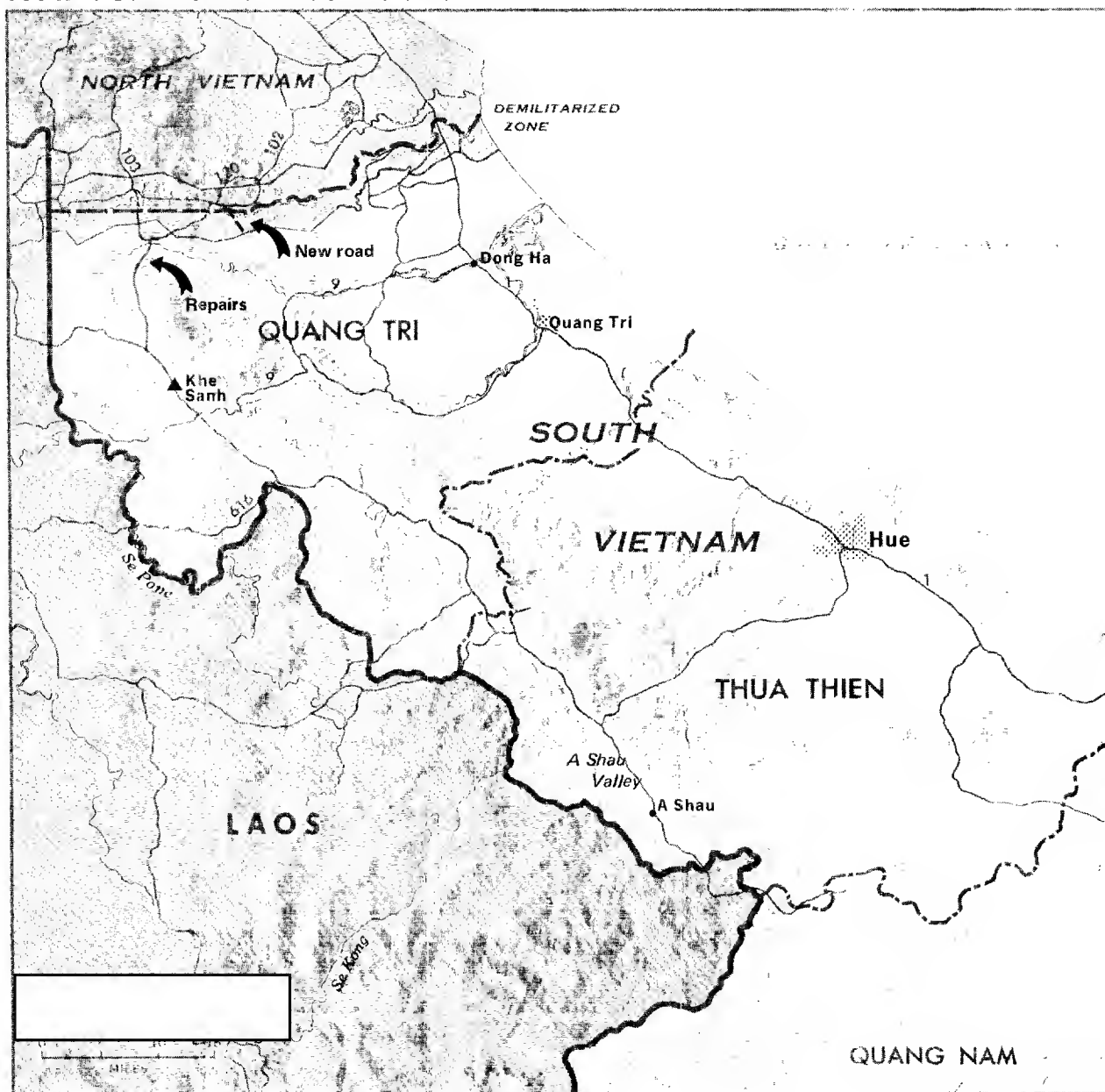
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New Communist Road Construction



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SOUTH VIETNAM: A recent pilot report indicates that the Communists are constructing a new road within the DMZ branching off Route 102 toward the central region of northern Quang Tri Province. Sensors and pilot reports also indicate that work has begun to repair the rain and bomb damage on a Communist road begun last May that runs through the western end of the DMZ and into Quang Tri Province. Both roads will facilitate the movement of supplies to Communist forces in this region of South Vietnam.

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NATIONAL INTELLIGENCE ESTIMATE

The United States Intelligence Board on 30 December 1971 approved the following national intelligence estimate:

NIE 80/90-1-71: "Nationalism and Change
in Latin America"

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